

Statement of Frontier Communications Corporation
Regarding Raised Bill No. 7055
AN ACT CONCERNING CONNECTICUT FIRST
Before the Committee on Finance, Revenue and Bonding
April 10, 2015

Proposal:

Raised Bill 7055 was introduced to "(1) Establish or extend various tax credits to incentivize investment in brownfield remediation, green technology, cybersecurity, bioscience and various start-up and small businesses, (2) authorize the establishment of special taxing districts for the purpose of developing community broadband systems, and (3) require an analysis on deviations from federal law as part of the legislative regulation review process.

Comments:

I am Ken Arndt, President of the East Region for Frontier Communications. I submit the comments today to express Frontier's concern that Raised Bill 7055 would divert limited tax dollars to create publically funded networks in certain communities, that are unnecessary given the current private sector investment by Frontier and others, and that have proven to be unsustainable.

As many of you know, Frontier is a full service telecommunications provider and the new owner of Southern New England Telephone Company. We offer voice, video and broadband services throughout the state and employ 2841 employees in Connecticut, 82% of whom are our union-represented partners. We are a leading Connecticut employer and have added 282 jobs since November. We continue to focus on enhancing our products and services as well as our workforce in the state.

I want to first stress that broadband availability is nearly 97% in Connecticut, which puts it at the top of the ranking across the nation. The available residential speeds compare favorably nationwide as well. According to the FCC, although 17% of the U.S. population lacks access to fixed 25 Mbps / 3 Mbps broadband, only 1% of the Connecticut population lacks such access.¹ And, commercial gigabit service exists in Connecticut today and any commercial customer who wants it can purchase it from Frontier.

The vast majority of Connecticut consumers have a choice of communications providers and communications services. This competition is driving enhancements in the capabilities of an already very robust and high-performing network. Frontier alone will spend more than \$480

¹ See Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, 2015 Broadband Progress Report, 30 FCC Rcd 1375, Appendix D (2015).

million over the next three years to deploy next generation technologies over fiber that will support more than 500 gigabits of transport capability, which is scalable to several terabits of data transport capability to each central office in the state, to ensure that our Connecticut network is positioned to handle future economic and technology growth. These investments improve both the performance and reach of our Connecticut network for both residential and business services. On the residential side, Frontier has plans to expand IP based broadband speed in Connecticut to more than 100,000 households. We have also committed \$3M to build Frontier broadband to households that currently have no access.

Just as others in the state are, we too are interested in better understanding the viability and impact of ultra-high-speed residential broadband networks in Connecticut. We participated in the 46 city municipal RFQ and have been in communication with a number of cities about a pilot project. We've prepared a checklist, to distribute to municipalities, which will help with identifying the most efficient way to expand and modernize the network within a community with the least amount of disruption to the community and will help identify where municipal incentives might facilitate a project.

We support a pilot approach to ensure the highest and best use of taxpayer dollars and to ensure adequate consumer demand at the targeted locations. We know from prior experience than what consumers say they want versus what consumers will pay for often differs. For example, we constructed a gig network in Durham, NC that passes approximately 300 homes and have zero gig subscribers. In Beaverton, Oregon, where our gig network passes approximately 26,000 homes, we have 4 gig subscribers today. So, while demand is increasing, gig service is still not something valued or demanded by most customers.

The fact is that broadband networks built and operated by cities are often touted as a tool to improve a city's economic status. Proposals for these networks generally paint a glowing picture of the network being financially self-supporting and assert that the new broadband capabilities will be a boon to economic development and job growth. But neither of these promises is a certainty. Indeed, quite often municipal networks fail (often spectacularly) to fulfill their promises. In addition, the impacts of municipal networks can have adverse implications in terms of loss of tax revenue, rights of way license and permitting fees as well as other tax payer funded incentives other municipalities have extended to attract a broadband build to their city.

Financial self-sufficiency

The expectation is generally that the network will generate sufficient revenues to support its construction and operation cost, so that taxpayers are not directly supporting the project. While the municipality usually provides the initial capital needed for construction by issuing bonds or providing loans, it is expected that the on-going network operations will assume responsibility for repaying these costs and the operation and depreciation expenses of running the business. In fact, it is unlikely that a municipality would embark on a network build without a proposed business plan that forecasts a viable business. Unfortunately, in reality very few municipal networks achieve financial self-sufficiency. In those instances, taxpayers are left footing the bill for the failed network.

For instance, the city of Monticello, Minnesota (population 12,800) built a fiber network in 2010, selling \$25M of bonds to finance the construction. The network has continually operated at a loss, which resulted in loans from other city departments of over \$3M to the network to support its operations. The City defaulted on its bond payments in 2012. Network operations continue to struggle with operating losses.

The city of Shawano, Wisconsin (population 9,000) built a fiber optic network to provide services within the city. Beginning in 2006, the city took on debt obligations of about \$5.2 million to build and operate the system. Since its inception, the system has run at a deficit. In 2013, the city sold the failed system to a private entity, for \$1.25 million.

In Utah, the UTOPIA project (a joint effort of 15 member cities with a population of 526,000) has been constructing and operating a fiber network since 2002. The project has borrowed nearly \$500M to date, with the member cities obligated to repay that amount if the project itself does not. Since its beginning, the project has operated at a loss.

Provo, Utah (population 115,000) embarked on a municipal fiber network in 2001. The project was financed by the city by selling \$39M in bonds. In addition, the city provided other subsidies totaling nearly \$20M. Actual operations did not meet projections and by 2008 the project was requiring an annual \$2M subsidy from the city. In 2013, the city sold the network to Google for \$1. The sale to Google did not relieve the city of its obligation to repay the \$39M of bonds it sold. Those costs are being borne by the city's taxpayers.

Here in Connecticut, we've already had an example of a failed effort. In 2003, the city of Groton, CT (population 40,000) created Thames Valley Communications ("TVC"), a separate city-owned entity, with the intent of building a fiber network. The city borrowed \$34M to fund TVC's construction of the network. The project has proved to be unsustainable financially, with annual losses averaging \$2M. In 2012, the city sold the network for \$550,000. The city's taxpayers are repaying the remaining debt of roughly \$27M.

Economic development and job growth

Municipal broadband networks are often portrayed as a means to economic development and job growth. Drawing a direct connection between jobs and broadband availability is difficult, as so many factors are at play in the economic climate.

In Chattanooga, Tennessee, the Electric Power Board ("EPB") project is often cited as an example of a successful municipal broadband network. EPB is city-owned electric utility in Chattanooga (population 170,000). Through the use of a \$100M grant from the federal government, revenues from bond sales, and intra-company loans from EPB, the fiber network was constructed in 2010. While the city is proud of the gigabit service that EPB provides, the actual impact of that service on economics and jobs is unclear. Figures from the U.S. Bureau of Labor Statistics show that the Chattanooga area had a job growth of 7% from the end of 2009 through the end of 2014. However, the rest of the state of Tennessee posted a 10% job growth during that same period.

Google has made headlines with their announced fiber projects in several cities; Austin, Kansas City, Provo, with others still to follow. While the promotional excitement and introductory pricing have drawn attention, it is not clear how much actual boost the service may

be to the city economies. Notably, none of these target cities could be described as economically depressed. All seem to have a relatively robust economic climate already and Google cherry picked those communities that were able to afford its service. In addition, there are not concrete statistics that point to the number of Google jobs brought to an area; a search of Google's career page for Austin advertises 16 positions.

And, while there may not be any explicit monetary funding provided by the host cities, there has been substantial intangible support provided and underwritten by taxpayers. For example, host cities have promised to provide Google with free access to rights of way, free space and power for Google equipment, free office space for Google employees, and relief from certain permitting and inspection requirements. All of these items are either unavailable to other carriers or come at a price. Host cities (and their taxpayers) have essentially agreed to forego tax and permitting revenues. The host cities also provided Google a good deal of latitude as far as which sections of the city receive service and when, which may result in certain parts of the cities not receiving Google service for some time, if ever. What economic benefits or additional job growth the host cities will ultimately derive from these concessions is not clear.

Regulation

Last, Section 5 of the bill proposes to amend section 7-326 to allow municipalities to "plan, lay out, acquire, construct, maintain, operate and regulate a community broadband system." This provision in the Finance bill contemplates attempting to authorize municipalities to regulate broadband. Frontier has a particular concern about this because this type of state regulation of municipal broadband networks is very much an unsettled area of law. The FCC recently preempted certain state regulation of municipal broadband networks, and that decision is the subject of a current federal appeal. The legitimacy of state laws regulating municipal broadband networks remain in question until that appeal concludes, and federal courts may ultimately allow the FCC to preempt certain municipal broadband regulations.

Conclusion:

My purpose here today is not to suggest that Frontier is anti ultra-high speed networks. To the contrary, we offer them today across our network for commercial customers and in targeted communities for residential customers. We are continually investing in and making improvements to our facilities and our goal is to deliver our customers networks that deploy leading technologies and superior service at competitive rates. Here in Connecticut, we have begun the conversation with municipalities about a pilot network and have plans in the coming weeks to gather the information we need from them in order to have more concrete discussions about a ultra-high speed pilot in their community.

We are concerned that HB 7055 bill would divert limited tax dollars to certain publicly funded networks that are unnecessary, given current private sector investment by Frontier and others, and that are financially unsustainable. We know the challenges associated with building and operating broadband infrastructure, even for a company with years of experience and the ability to leverage scale and scope is key. Utilizing tax dollars in this manner is unlikely to yield consumer benefits. For this reason, we urge the Committee to take a cautious approach and refrain from expanding those provisions related to government subsidies of municipal broadband networks in HB 7055.